

Spirit of Service

*Jane
might be worth
a look for possible
figures.
We have had annual*



1976 Annual Report to the shareholders

THE ISLAND TELEPHONE COMPANY LIMITED

Incorporated under the laws of the Province of Prince Edward Island
Head Office: 71 Belvedere Avenue, Charlottetown, Prince Edward Island, Canada C1A 1R5
Telephone (Area Code 902) 894-5501

REGISTRAR AND STOCK TRANSFER OFFICES

Canada Permanent Trust Company

129 Kent Street, Charlottetown, P.E.I.
(Common shares, 4 $\frac{1}{2}$ % Preference shares,
4 $\frac{3}{4}$ % Preference shares, 5 $\frac{1}{2}$ % Preference shares,
7 $\frac{1}{4}$ % Preference shares, and 9 $\frac{1}{4}$ % Preference
shares)

600 Dorchester Boulevard, West, Montreal 101, Quebec
(Common shares, 5 $\frac{1}{2}$ % Preference shares, 7 $\frac{1}{4}$ % Preference shares
and 9 $\frac{1}{4}$ % Preference shares)

20 Eglinton Avenue, West, Toronto 1, Ontario
(Common shares, 7 $\frac{1}{4}$ % Preference shares and
9 $\frac{1}{4}$ % Preference shares)

315 Eighth Avenue, S. W., Calgary, Alberta
(Common shares and 9 $\frac{1}{4}$ % Preference shares)

701 West Georgia Street, Vancouver, B.C.
(5 $\frac{1}{2}$ % Preference shares)

1646 Barrington Street, Halifax, N.S.
(Common shares, 5 $\frac{1}{2}$ % Preference shares, 7 $\frac{1}{4}$ %
Preference shares, and 9 $\frac{1}{4}$ % Preference
shares)

COMMON SHARES LISTED

Montreal Stock Exchange
Toronto Stock Exchange

VALUATION DAY PRICES

(December 22, 1971)

Common Shares	—\$10.25
4 $\frac{1}{2}$ % Preference shares	—\$ 6.25
4 $\frac{3}{4}$ % Preference shares	—\$ 6.60
5 $\frac{1}{2}$ % Preference shares	—\$15.25

This 1976 Annual Report is a summary of the operations of the Company in its service to the people of Prince Edward Island. It is prepared for those who have invested in our Company, for those who are interested in the Company's performance and for our employees.

ANNUAL MEETING

The annual general meeting of the shareholders of The Island Telephone Company Limited will be held at the Head Office of the Company 71 Belvedere Avenue, Charlottetown, P.E.I., Tuesday, May 31, 1977 at 11:30 o'clock in the forenoon.

THE COVER

These scenes of Island Tel men and women, pictured at work the length and breadth of the Province, are taken from printers plates prepared for the 1977-78 telephone directory cover to be published in July.

From the President



Late in the last century it was a redoubtable Maritimer who — far from his home town — showed such dedication to provision of vital telecommunications service that the entire North American telephone industry singled him out as the epitome of the fledgling business' "Spirit of Service".

In the decades since then the men and women of your Company, no less than those of the entire industry, have consistently reinforced this tradition. Countless times against what seemed insurmountable odds telephone people have shown themselves to be a special brand — with spirit, drive and pride in service that set them apart.

In 1976, the service of Island Tel's 146 men and 142 women to their fellow citizens of Prince Edward Island lived up to this tradition. Thus the corporate statistics of growth and development, the results measured in dollars and cents, and the activities detailed in words and paragraphs in this Report sum up the collective efforts of Island Tel people.



Company's senior management are (left to right) Walter Auld, Executive Vice-President; Donald Livingstone, General Manager; Ivan Duvar, President; and Edward Hicks, Vice-President — Finance.

Their achievements for 1976 are impressive.

The number of telephones in service passed the 50,000 mark with the 3,169 new telephones added in 1976 bringing the year end total to 52,325. Also, long distance calling increased by 9.6% over 1975 to more than 4 million messages.

The service improvement program continued

with the conversion of four exchanges to automatic dial service and Direct Distance Dialing service, and with further progress in the reduction of the number of customers on multi-party lines. Also the expansion of special telecommunication services continued in mobile telephone service, pocket-paging, computer data service, touch-tone telephones, and two new microwave channels to provide cable T.V. service.

The growth in telephone service, along with the service improvement program (and the replacement of equipment), required an investment of \$6.8 million in additional telephone facilities. More than half of this amount had to be raised from external sources through an issue of first mortgage bonds early in the year and in the fall through the sale of 165,000 common shares, the first public common share issue since 1966.

The demand for telecommunication services in PEI remained strong during 1976 and, despite rising costs due to inflation, earnings per average common share increased in 1976 to \$1.61 over \$1.40 in 1975. The rate of return on average invested capital was 10.0%, up from 9.5% a year earlier, and the return on average common equity was 13.5%, up from 12.4%.

To enable your company in 1977 to carry through the final year of its all-dial, all-DDD service improvement program, and to meet the anticipated growth in additional telephones and increased local and long distance calling, will require an estimated \$9 million construction expenditure program and the continued efforts of all the employees of the Company.

Satisfactory earnings are necessary if the Company is to continue to provide an effective and efficient telephone service. As a result the Company applied to the PEI Public Utilities Commission for new rates which became effective March 1, 1977, which will produce an additional 10.1% in revenue for 1977.



I.E.H. Duvar

Chairman of the Board
& President

March 23, 1977

From the Directors

SERVICE GROWTH AND IMPROVEMENT

By far the major share of the business we do is in response to our customers' needs for more telephones, for greater calling capacity and for improved services in rural and semi-rural areas. 1976 saw the following changes:

Growth in service

- the gain in telephones in service was 3,169 (continuing the strong growth of recent years). This was a 6.5 percent increase to a new total of 52,325, compared to 27,900 ten years ago.



Kay Frizzell, Operator Services Manager, (second from left) discusses toll statistics with Assistant Managers Helen McCoubrey and Grace Kelly and Elaine Ballem, Manager Operator Service.

- the number of telephones per 100 persons in the Province at year end was 45, compared to 26 a decade ago.
- the percentage of households and apartments with phone service rose to 96.5 compared to 72 in 1966.

- more than 61 percent of residence customers now have single line service, a significant development from a decade ago when the percentage was 47.
- with the conversion of four more exchanges to dial, the percentage of total telephones in service with automatic dial capacity rose to 95, up from 67 in 1966.

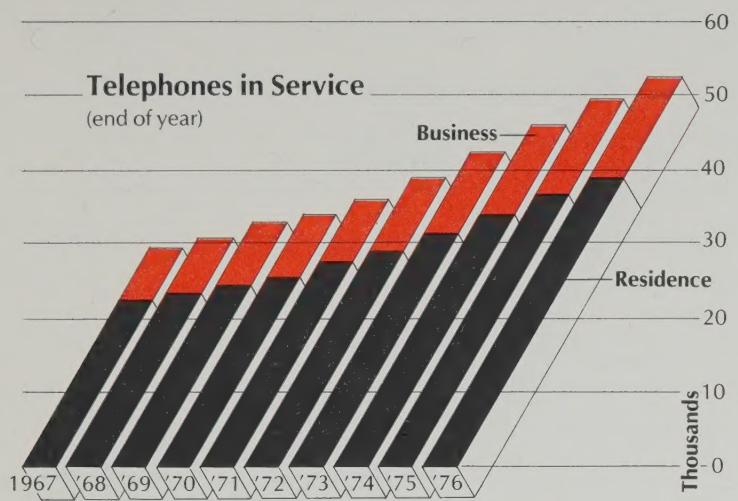
Growth in calling

- with provision of Direct Distance Dialing for New London, Crapaud, and the combined Morell-St. Peters exchanges, DDD capability rose to 95 per cent. A decade ago there was no DDD service in PEI.
- the total volume of calling is now well over 100 million annually. In 1976, the increase in long distance calling alone was significant with just over 4.1 million calls, an increase of 9.6 percent over 1975.
- the growth in long distance calling was achieved despite additional Extended Area Service (EAS or "free calling") plans. As noted earlier, EAS was provided for customer-calling between New London and Kensington, bringing to 89.6 the percentage of all Company customers with "free calling" to neighboring exchanges.

Service improvement programs

Progress was on target in the four service improvement projects scheduled for 1976, the fifth year of the accelerated expansion and service improvement program:

- in New London, Morell, St. Peters and Crapaud, 1,851 magneto telephones were replaced with dial telephones
- by the end of the year the average number of customers sharing multi-party lines had been reduced to 4.8 compared to an average of 7.7 five years ago
- Extended Area Service was provided between Kensington and New London eliminating long distance charges among the 1997 customers in the two exchanges
- all existing dial exchanges have Direct Distance Dial service, and as new dial phones were installed in exchanges being converted to dial service, all were provided with DDD network access



during 1976 the Company buried nearly 270 miles of cable and wire using special plowing machinery. Where it could be effectively used the "buried plant" program provided for cable installation at minimum cost. As well it secured service against disruptions by the elements

New services

For many customers, a number of services were either introduced or expanded, all designed to meet widening needs of our customers and to earn additional revenues:

- premium-priced Touch Tone telephones



Stewart Smith, Special Services Foreman, William Bell, Installation and Repair Foreman, Summerside, and Stanley Godfrey, Supervisor Installation and Repair discuss new mobile telephone terminal at Murray River.

providing convenient push-button calling were well received in the Charlottetown exchange. In the first three months of its introduction nearly 300 homes and businesses subscribed to this service

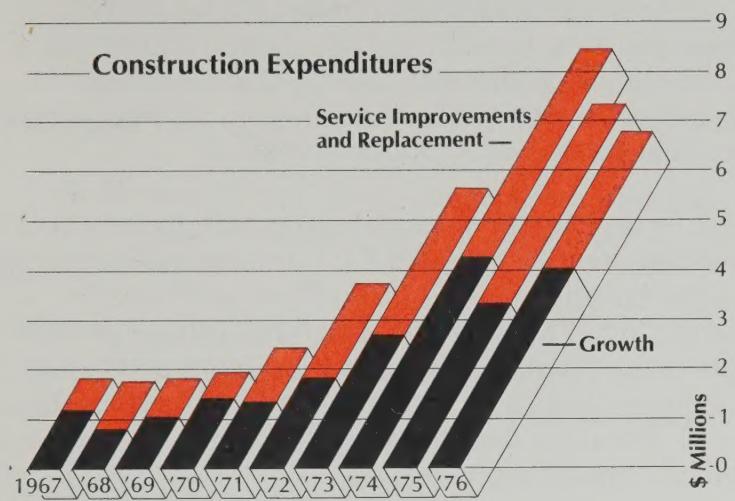
- convenient pocket-sized radio paging devices were promoted and supplied to a growing body of customers seeking to maintain contact while away from their offices and workplaces
- mobile phone service for trucks and automobiles was expanded to the Summerside area, and additional capacity installed for the Charlottetown area



- between Tea Hill in P.E.I. and Nutby Mountain in Nova Scotia a new microwave transmission system was completed in November to provide additional cable-television for Charlottetown viewers
- promotion of Contempra phones, color telephones and similar premium-priced equipment — including extension sets — successfully raised the number of color sets in service to nearly 13,000, the number of Contempra sets to close to 2,400, and the number of business and residential extension sets to more than 9,600.

Marketing results are the focus of attention of David McLane, Commercial Manager, Earl MacDonald, Development Forecaster, and Blair Mayne, Communication Consultant.

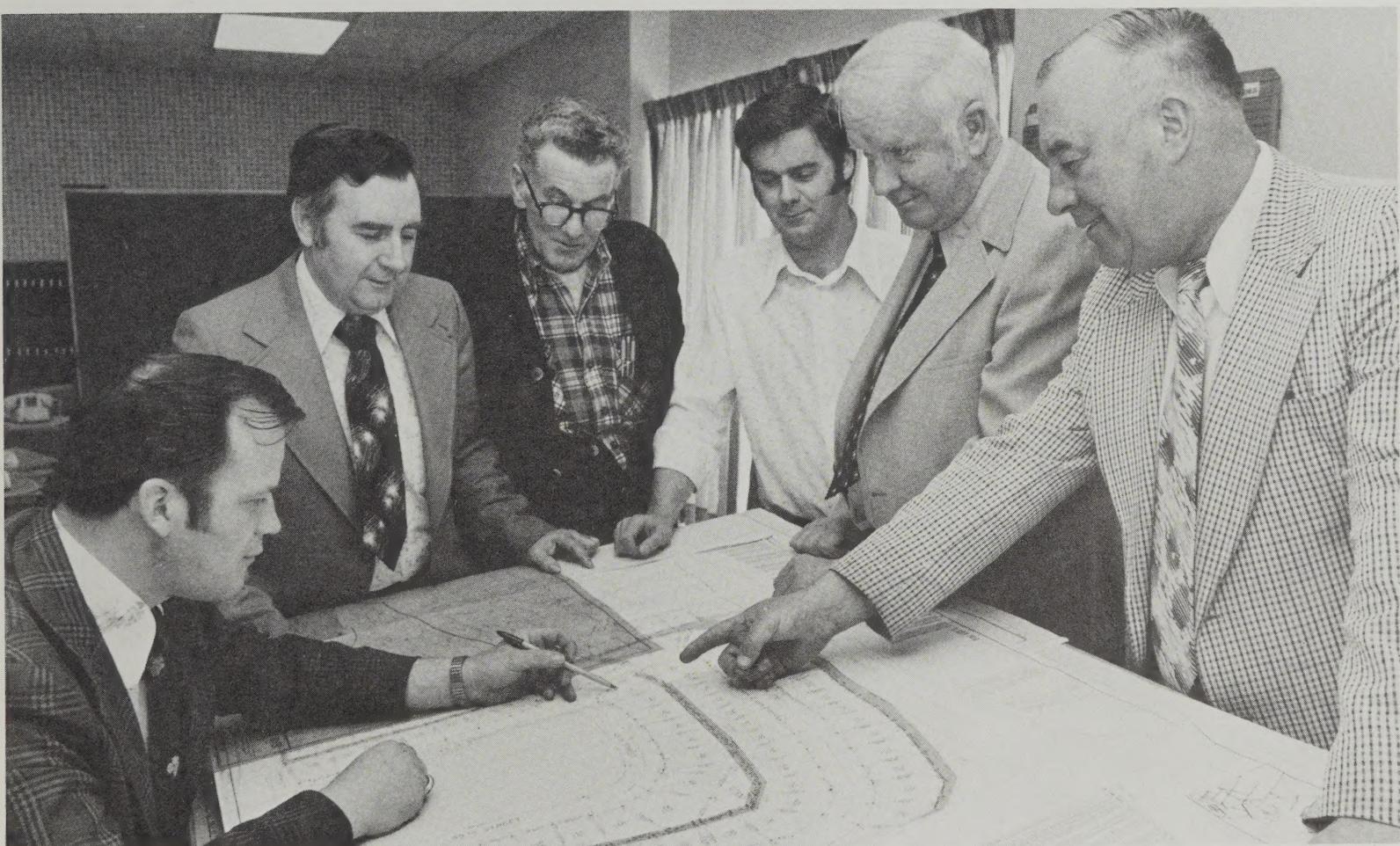
EXPANSION OF FACILITIES



Service growth and the expansion and service improvement program required an overall capital expenditure of \$6.8 million during 1976.

Just to meet the demand for nearly 3,200 additional telephones in 1976 required installation forces to work some 23,000 "in" and "out" orders — installation of more than 13,000 and removal of more than 9,700 phones.

As well, these additional telephones — combined with growth in usage of the existing network both for local as well as long distance calling



Telephone service for a new subdivision is discussed by Joseph Martell, Engineering Associate; Austin Trainor, Engineering Supervisor Outside Plant; Eric Saunders, Construction Foreman; John MacEachern, Control Centre Foreman; Raymond Livingstone, Supervisor Construction — Buildings Vehicles and Supplies; and Earl Smith, Senior Engineering Associate.

— generated, in turn, the need for widespread expansion of overall facilities.

This expansion and the growth in telephones required significant level of capital investment. In 1976, this "growth" portion of the total \$6.8 million capital expenditures program was \$4 million.

The service improvement portion of the 1976 \$6.8 million capital program totalled \$1.8 million, and included expenditures to convert phones to dial, to establish EAS calling areas, to equip exchanges with DDD capacity and to reduce rural party line sharing.

Finally, a total of \$1 million was required to remove and renew facilities to meet continued heavy usage.

Major projects included new dial switching centres and related plant facilities, and even new telephone sets themselves, in New London, Crapaud and the combined Morell-St. Peters exchange, which cost \$1,761,000.

In 1976, as well, construction was commenced on six more dial switching centres slated for service in 1977. The expenditure in 1976 for building construction alone in South Lake, Mt. Stewart, Eldon, Cardigan, Georgetown and Tyne Valley totalled \$257,000.

To provide additional trunk facilities for EAS between New London and Kensington required an expenditure of \$89,000, and DDD service was installed for \$46,000 for customers in the four exchanges converted to dial operation.

A second microwave route for telephone message service between P.E.I. and the mainland was commenced between Murray River and Fraser's Mountain in Nova Scotia. This \$102,000 project will provide additional long distance circuits and has an ultimate capacity of 120 voice channel circuits. As well, it ensures continuity of off Island telecommunications service.



Arthur Holland, Supervisor Trunks and Switching, (second from left) verifies trunk rearrangements with Trunks and Switching foremen Roger Meek and Robert White of Charlottetown and John Woodworth, Summerside.

Over the years, a total of 2,200 miles of buried cable and wire, and 700 miles of aerial cable, have been placed in service. In 1976 nearly 270 miles of cable were buried in almost half the exchanges to meet telephone growth and reduce multi-party lines at a cost of \$2.3 million.

At Crossroads, the building to house a new and modern electronic switching centre was completed for \$117,000. This \$1,440,000 project will be placed in service in July, 1977.

EMPLOYEES, ORGANIZATION CHANGES

Employees

At the end of 1976, there were 142 women and 146 men, a total of 288 employees, compared to 279 a year earlier.

Their salaries and wages for the year were \$3,373,899, an increase of 16 per cent over the previous year. As well, \$498,413, or 14.8 percent of the payroll, was paid out as follows:

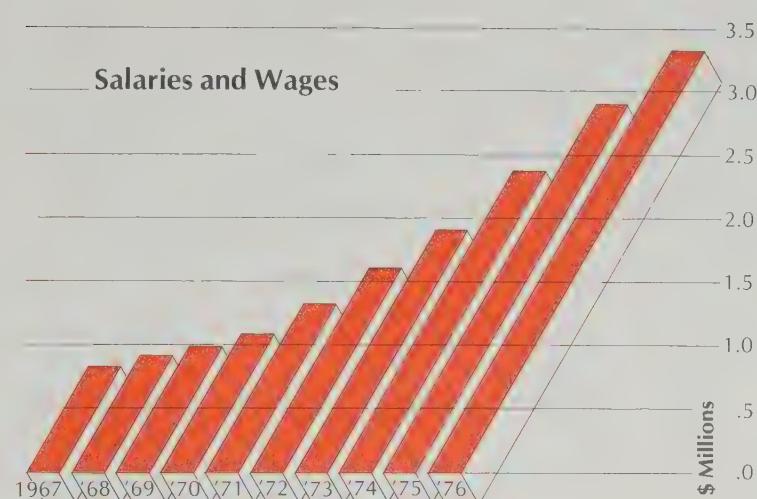
- \$352,275 in payments by the Company to the non-contributory pension plan
- \$58,685 in payments for sickness, accident, group insurance and supplementary hospital insurance
- \$37,253 in payments to the Canada Pension Plan
- \$50,200 in payments to Unemployment Insurance

Employees may participate in a savings program provided through Employees Stock Savings. In 1976, 35 percent of the Company employees saved for the future in this way.

Finally, the variety of on-the-job training courses off-site development and training courses and related educational benefits was continued in 1976. Overall, 47 employees participated in these courses and programs.

Organization

In 1976 the Board of Directors accepted the resignation of A. Gordon Archibald as Chairman of the Board. In so doing, the Board recorded its deep appreciation and respect for the many years of dedicated service to the Company by Mr. Archibald, who served as President from 1963 to 1975, and continues to serve as a Director.



A look ahead

The year 1977 will see completion of the all-dial, all-DDD goals of the Company's ongoing service improvement program. Progress will continue in the establishment of additional EAS plans, enlarged base rate (ie., no mileage charge) areas, and reduction in the number of customers sharing party lines to an average of 4.3, or fewer.

As well, an estimated 3,000 additional telephones will be added to the network, long distance volumes will increase to more than 4.3 million messages, and facilities for both local and long distance calling will be greatly expanded.

These challenges to the men and women of Island Tel will be met with the same "Spirit of Service" that has marked their achievements to date.

Your Directors realize the very foundation of the telecommunications industry is rooted in this valued tradition. Your Company came into existence through public permission, and continues to serve with public consent. And this in turn must be earned anew with each year of service to the people of our Province.

For the Board of Directors

Chairman of the Board
& President

Charlottetown, PEI

April 26, 1977

FINANCIAL REVIEW

The Company's total operating revenues for 1976 were \$11,416,700, up 16.8 percent from \$9,775,700 in 1975, due primarily to the 6.4 percent growth in telephones in service and the 9.6 percent increase in long distance messages. Total operating expenses, at \$7,361,400, represented a 13.2 percent increase over the \$6,496,900 in 1975. As a result, the Company's earnings for the year showed a strong improvement over 1975.

Earnings per average common share were \$1.61, compared to \$1.40 a year earlier, despite the significant increase in outstanding common shares as a result of the common stock issue in October. The rate of return on average invested capital rose to 10.0 percent from 9.5 percent in 1975, and the return on average common equity was 13.5 percent, up from 12.4 percent the year before.

A continuing improvement in earnings is required to support the increased level of spending necessary to meet growth and service improvement requirements. The Company does not generate sufficient funds from internal sources to finance its capital expenditure programs. As a result, the Company issued and sold \$2,500,000 of 11 percent Series K First Mortgage Bonds in March; and \$1,815,000 of common stock in October consisting of 165,000 shares at \$11 per share, the first public common share issue since 1966.

The Company expended \$6.8 million for construction in 1976 and will spend an estimated \$9 million in 1977 to meet continuing customer needs for telecommunications services as well as to complete its service improvement program. Although earnings were improved during 1976, there was a downward trend in earnings during the latter part of the year. As a result, the Company filed an application with the Prince Edward Island Public Utilities Commission in December for approval to increase the rates it charges for a wide variety of services. Following hearings in January, new rates were approved, to be effective March 1, 1977. Thus, operating revenues for 1977 from the revised rates will increase by \$1,290,000, or 10.1 percent, and the Company anticipates that the ensuing earnings will support the record high level of capital spending planned for 1977.

in brief

	1976	1975
Earnings per common share	\$ 1.61	\$ 1.40
Dividends per common share	\$.92	\$.74
Return on average common equity	13.5%	12.4%
Return on average invested capital	10.0%	9.5%
Equity per common share, December 31	\$ 11.89	\$ 11.66
Construction program expenditures (thousands)	\$ 6,754	\$ 7,298
Telephone plant per telephone, December 31	\$ 857	\$ 807
Telephones in service, December 31	52,325	49,156
Long-term debt % total invested capital, December 31	56.7%	60.3%
Employees, December 31	288	279
Salaries and Wages (thousands)	\$ 3,374	\$ 2,910
Average common shares	606,603	562,878

David Inkpen, Comptroller, James Cameron, Assistant Secretary, and Donald Quinn, Secretary Treasurer, review financial data before a meeting of the Board of Directors.



AUDITORS' REPORT

To the Shareholders of The Island Telephone Company Limited:

We have examined the financial position statement of The Island Telephone Company Limited as at December 31, 1976 and the statements of income, retained earnings, and sources of funds used for construction for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the sources of its funds used for construction for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

Halifax, Canada
January 31, 1977

INCOME STATEMENT
For the Year Ended December 31

	1976	1975
	\$	\$
OPERATING REVENUES		
Local service	5,210,400	4,858,100
Long distance service	5,974,800	4,727,900
Other	296,100	235,400
Uncollectible	64,600	45,700
	11,416,700	9,775,700
OPERATING EXPENSES		
Maintenance	2,157,700	1,696,700
Depreciation (Note 1(a))	2,200,200	2,075,400
Traffic	1,185,800	1,234,400
Commercial & marketing	523,900	426,700
Administrative	464,700	355,400
Pensions and other employee benefits	322,800	311,400
Other	303,100	222,700
Taxes other than income taxes	203,200	174,200
	7,361,400	6,496,900
OTHER INCOME (Note 2)	4,055,300	3,278,800
	86,500	235,000
	4,141,800	3,513,800
INTEREST		
Bond interest	1,371,300	1,149,000
Other (Note 3)	311,000	314,300
	1,682,300	1,463,300
INCOME TAXES	2,459,500	2,050,500
	1,110,100	887,700
NET INCOME	1,349,400	1,162,800
Preference Dividends	372,000	372,000
NET INCOME APPLICABLE TO COMMON SHARES	977,400	790,800
Earnings per common share	1.61	1.40

RETAINED EARNINGS STATEMENT
For the Year Ended December 31

	1976	1975
	\$	\$
RETAINED EARNINGS, beginning of year	2,804,800	2,429,800
ADDITIONS:		
Net income	1,349,400	1,162,800
DEDUCTIONS:		
Preference dividends	372,000	372,000
Common dividends	579,800	415,200
Commission and expenses of issuing capital stock	73,600	—
Other	—	600
	1,025,400	787,800
RETAINED EARNINGS, end of year	3,128,800	2,804,800

D. S. Inkpen,
Comptroller

FINANCIAL POSITION STATEMENT
As at December 31

ASSETS

	1976	1975
	\$	\$
TELEPHONE PLANT (Note 1(a))		
Depreciable telephone plant in service	42,180,400	38,409,100
Other telephone plant (Note 4)	2,219,100	890,700
	44,399,500	39,299,800
Less accumulated depreciation	8,438,300	7,556,400
	35,961,200	31,743,400
Materials inventory	426,500	376,300
	36,387,700	32,119,700
INVESTMENTS (Note 5)	111,300	72,600

CURRENT ASSETS

Cash	26,200	311,000
Accounts receivable	1,478,800	1,579,300
Prepayments	95,700	83,100
	1,600,700	1,973,400

DEFERRED CHARGES

Unamortized long-term debt expenses	196,200	173,500
Other deferred charges	75,400	110,600
	271,600	284,100
	38,371,300	34,449,800

On behalf of the Board

I. E. H. Duvar
Director

STATEMENT OF SOURCES OF FUNDS USED FOR CONSTRUCTION

For the Year Ended December 31

LIABILITIES AND SHAREHOLDERS' EQUITY

	1976	1975
	\$	\$
SHAREHOLDERS' EQUITY		
Common stock (Note 6)	3,733,200	2,857,600
Premium on common stock (Note 7)	2,012,300	1,004,200
Retained earnings	3,128,800	2,804,800
Total common equity	8,874,300	6,666,600
Preference stock (Note 6)	5,050,000	5,050,000
	13,924,300	11,716,600
LONG-TERM DEBT (Note 8)		
First mortgage bonds	15,750,000	13,250,000
Bank and other notes	2,475,000	4,540,000
	18,225,000	17,790,000

	1976	1975
	\$	\$
CURRENT LIABILITIES		
Due to Maritime Telegraph & Telephone Company, Limited	335,700	37,700
Accounts payable	992,400	723,600
Income taxes accrued	32,000	193,400
Interest accrued	314,500	245,800
Other current liabilities	316,600	269,800
	1,991,200	1,470,300

	1976	1975
	\$	\$
DEFERRED CREDITS		
Income taxes (Note 1(b))	4,211,000	3,458,400
Other deferred credits (Note 9)	19,800	14,500
	4,230,800	3,472,900
	38,371,300	34,449,800

	1976	1975
	\$	\$
SOURCE OF FUNDS:		
Internal —		
Operating revenues and other income	11,503,200	10,010,700
Less charges requiring working capital (Note 10)	7,237,200	6,472,700
Total internal — from Operations	4,266,000	3,538,000
External —		
Common stock	1,815,000	—
First mortgage bonds	2,500,000	3,500,000
Bank and other notes	2,475,000	4,540,000
Employees' stock savings plan (Note 9)	68,500	50,900
Decrease in working capital	893,600	—
Total external	7,752,100	8,090,900
Total source of funds	12,018,100	11,628,900
Funds used for other than construction —		
Repayment of bank and other notes	4,540,000	2,973,000
Dividends	951,800	787,200
Other	50,600	62,800
Increase in materials inventory	50,200	8,600
Increase in working capital	—	1,696,300
Total funds used for other than construction	5,592,600	5,527,900
Total funds provided for construction	6,425,500	6,101,000
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	6,615,000	7,171,100
Cost of removing old plant	139,100	127,300
Construction program expenditures	6,754,100	7,298,400
Less charges not requiring working capital		
— Allowance for funds used during construction	83,600	229,800
— Salvage	207,400	944,800
— Other	37,600	22,800
Total funds used for construction	328,600	1,197,400
	6,425,500	6,101,000

R. MacFarlane
Director

The accompanying notes form an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies —

(a) Accounting for telephone plant:

Telephone Plant is carried at cost.

Depreciation is charged on a straight-line basis using component rates for classes of plant, determined by a continuing program of engineering studies, as approved by the Public Utilities Commission of the Province of Prince Edward Island. These rates provide for depreciating the assets over their estimated useful service lives and resulted in a composite rate for 1976 of 5.6% (1975, 6.1%).

Materials inventory consists of items which will be used in the construction program.

(b) Income taxes:

Deferred tax accounting has been followed with respect to all timing differences.

(2) Other income — includes an allowance for funds used during construction of \$83,600 (1975 — \$229,800) less other income charges.

(3) Other interest — includes interest on bank and other notes of \$285,700 (1975 — \$299,600) and amortization of long-term debt expenses amounting to \$16,900 (1975 — \$10,700).

(4) Other telephone plant — land and telephone plant under construction.

(5) Investments — includes investment, at cost, in miscellaneous physical property (\$51,300) and shares of Telesat Canada (\$60,000).

(6) Capital stock —

	1976	1975
Authorized	\$10,000,000	\$10,000,000
Shares		
Issued:		
Common — par value \$5.00		
Beginning of year	571,518	562,092
Issued during year	175,113	9,426
End of year	746,631	571,518
Preference — cumulative redeemable		
4½% — par value \$10.00	40,000	40,000
4¾% — par value \$10.00	40,000	40,000
5½% — par value \$20.00	37,500	37,500
7¼% — par value \$20.00	75,000	75,000
9¼% — par value \$20.00	100,000	100,000
	292,500	292,500
Value, at par, of issued common and preference shares	\$ 8,783,200	\$ 7,907,600

4½%, 4¾% and 5½% Preference Shares

These shares are non-voting unless eight quarterly dividends are in arrears. The Company may redeem the shares at any time, upon giving thirty days notice to the holders, at par plus a stated premium in each case and any accrued but unpaid dividends.

7¼% Preference Shares

These shares are non-voting unless eight quarterly dividends are in arrears. On or before June 15, 1978, these shares are redeemable at the option of the Company, upon giving thirty days notice to the holders, at par, together with accrued and unpaid dividends to the date of redemption, plus a premium of \$1.20. The premium thereafter decreases \$.20 every three years until June 15, 1990, after which date the remaining shares are redeemable at a price of \$20.20.

9¼% Preference Shares

These shares are non-voting unless eight quarterly dividends are in arrears. The shares are not redeemable prior to June 15, 1979. On or after June 15, 1979 these shares are redeemable, at the option of the Company, upon giving thirty days notice to the holders, at par together with accrued and unpaid dividends plus a premium of \$1.45. The premium thereafter decreases \$.20 every three years until June 15, 1997, after which date the remaining share are redeemable at a price of \$20.20.

(7) Premium on common stock —

	1976	1975
Beginning of year	\$1,004,200	\$1,000,700
On shares issued during year	1,008,100	3,500
End of year	\$2,012,300	\$1,004,200

(8) Long-term debt —

(a) First mortgage bonds -

Series	Rate	Maturing	Principal
D	5½%	May 1, 1978	\$ 500,000
E	5½%	October 2, 1981	500,000
F	5½%	June 15, 1983	750,000
G	7¾%	February 1, 1988	1,000,000
H	8 %	December 15, 1991	3,000,000
I	9½%	December 15, 1993	4,000,000
J*	11 %	January 15, 1995	3,500,000
K	11 %	March 31, 1996	2,500,000
			<u>\$15,750,000</u>

*The holders of Series J Bonds have the right to require the Company to repay the principal amount at par on January 15, 1985.

(b) Bank and other notes —

Bank demand loans at prime rate	<u>\$2,475,000</u>
---------------------------------	--------------------

In order to permit the Company to time its new issues of debt or capital most advantageously the Company maintains a substantial bank line of credit and from time to time sells short-term promissory notes. Such short-term credit is replaced in the normal course by longer term financing and currently maturing debt issues are likewise normally refinanced. For this reason the Company does not classify these items as current liabilities.

Likewise, the Company does not classify as current assets excess funds received through financing and temporarily invested in short-term investments.

(9) Other deferred credits — includes employees' stock savings plan as follows:

	1976	1975
Beginning of year	\$ 500	\$ 200
Add contributions, including interest	68,500	50,900
	69,000	51,100
Less common stock issued to employees under the plan	68,700	50,600
End of year	\$ 300	\$ 500

Generally, shares are issued in December of each year after the completion of twelve months of contributions. The purchase price is equivalent to 80% of the average market price of the stock.

(10) Charges requiring working capital —

	1976	1975
Operating expenses, interest and taxes	\$10,153,800	\$8,847,900
Less charges not requiring working capital		
— Depreciation	2,200,200	2,075,400
— Deferred income taxes	752,600	487,000
— Other	47,400	42,600
	3,000,200	2,605,000
Add credits not producing working capital —		
Allowance for funds used during construction	83,600	229,800
	\$ 7,237,200	\$6,472,700

(11) Pension Fund —

Pension Fund Obligations are accounted for and paid over the estimated future working lifetime of employees of the Company. The contribution to the pension fund for the year ended December 31, 1976 amounted to \$352,300 (1975, \$291,900). The actuarial reviews as of December 31, 1975 based on earnings and service to that date, show that all vested benefits are fully funded.

(12) Anti-Inflation Act —

The Company is subject to the Anti-Inflation Act which provides authority for the imposition of Anti-Inflation restraints from October 14, 1975, and is expected to be in force until December 31, 1978. The Act and the guidelines thereunder control profit margins, prices, dividends and compensation. The Anti-Inflation Act contains special provisions relating to the application of the guidelines to companies whose prices or profit margins are subject to approval by regulatory bodies. The Company is subject to regulation by the Public Utilities Commission of the Province of Prince Edward Island.

Section 4.1 (1) of the Anti-Inflation Act provides that any body that establishes or approves the prices or profit margins of any supplier to whom the guidelines apply shall, in exercising its powers, apply such guidelines as are applicable in the circumstances, modified to such extent, if any, as in the opinion of the body, is necessary to take into account the particular facts of the situation.

Management is satisfied that the Company is complying with the legislation and regulations thereunder.

(13) Comparative figures —

Certain of the 1975 figures have been restated so as to conform the presentation with that followed in 1976.

THE YEARS IN REVIEW

	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
Financial Position at Dec. 31 (in thousands)										
Telephone plant	\$ 44,826	\$ 39,676	\$ 35,081	\$ 27,753	\$ 23,026	\$ 19,947	\$ 18,163	\$ 16,888	\$ 15,634	\$ 14,612
Accumulated depreciation	8,438	7,556	7,183	6,157	5,458	5,063	4,606	4,198	3,817	3,517
Investments	111	73	72	72	72	1,562	106	83	31	12
Current assets	1,600	1,973	1,346	1,006	755	614	553	514	619	370
Deferred charges	272	284	214	194	67	105	37	38	41	78
Shareholders' equity	13,924	11,717	11,291	9,229	8,778	6,942	6,571	6,481	6,347	6,266
Long term debt	18,225	17,790	12,723	10,230	7,125	8,000	5,906	5,210	4,620	3,931
Current liabilities	1,991	1,470	2,539	1,003	746	647	422	390	447	336
Deferred credits	4,231	3,473	2,977	2,406	1,813	1,576	1,354	1,244	1,094	1,022

Income (in thousands)

Operating revenues	\$ 11,417	\$ 9,776	\$ 7,648	\$ 6,548	\$ 5,440	\$ 4,784	\$ 3,903	\$ 3,589	\$ 3,274	\$ 2,967
Operating expenses	7,362	6,497	5,385	4,253	3,494	3,013	2,690	2,385	2,204	2,004
Other income	86	235	87	70	24	15	9	10	11	7
Interest	1,682	1,463	927	615	495	432	401	313	259	175
Income taxes	1,110	888	684	829	672	654	409	451	410	389
Net income for year	1,349	1,163	739	921	803	700	412	450	412	406

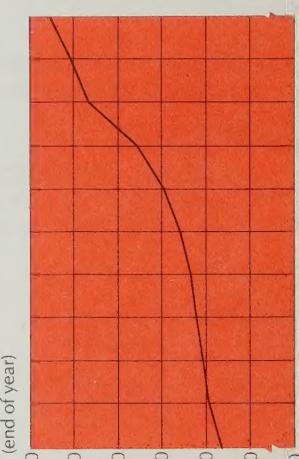
Statistics — at December 31

Telephone plant per telephone	\$ 857	\$ 807	\$ 765	\$ 656	\$ 593	\$ 559	\$ 534	\$ 523	\$ 510	\$ 496
Equity per common share	\$ 11.89	\$ 11.66	\$ 11.10	\$ 11.16	\$ 10.48	\$ 9.95	\$ 9.35	\$ 9.27	\$ 9.09	\$ 9.02
Embedded debt cost	9.2%	8.9%	8.1%	8.1	6.8%	7.4%	7.1%	5.9%	5.9%	5.1%
Long term debt % total invested capital	56.7%	60.3%	53.0%	52.6%	44.8%	53.5%	47.3%	44.6%	42.1%	38.2%
Employees	288	279	297	258	259	225	221	198	197	206
Telephones in service	52,325	49,156	45,866	42,314	38,841	35,715	33,999	32,314	30,683	29,465
Dial telephones	94.6%	91.2%	87.4%	83.5%	78.7%	76.7%	73.9%	74.1%	72.1%	67.0%
Shareholders	2,828	2,626	2,615	2,192	2,160	1,791	1,788	1,812	1,838	1,849

Statistics — for year

Earnings per common share	\$ 1.61	\$ 1.40	\$.82	\$ 1.34	\$ 1.26	\$ 1.15	\$.63	\$.70	\$.64	\$.63
Average common shares	606,603	562,878	554,315	549,281	544,636	540,084	535,216	530,432	525,706	520,080
Dividends per common share	\$.92	\$.74	\$.65	\$.62	\$.60	\$.51	\$.50	\$.50	\$.50	\$.50
Times bond interest earned—before taxes	3.0	3.1	3.0	5.3	4.15	4.95	3.66	5.54	5.04	6.00
Times bond interest earned—after taxes	2.2	2.3	2.1	3.4	2.74	3.14	2.43	3.48	3.13	3.59
Return on average invested capital	10.0%	9.5%	7.8%	8.8%	8.8%	8.7%	6.7%	6.7%	6.3%	6.0%
Return on rate base	8.6%	8.1%	6.7%	7.7%	8.0%	7.8%	6.1%	6.1%	5.8%	5.5%
Return on average common equity	13.5%	12.4%	7.2%	12.3%	12.3%	12.0%	6.7%	7.6%	7.0%	7.0%
Construction program expenditures (in thousands)	\$ 6,754	\$ 7,298	\$ 8,423	\$ 5,648	\$ 3,702	\$ 2,429	\$ 1,951	\$ 1,835	\$ 1,715	\$ 1,835
Salaries and wages (in thousands)	\$ 3,374	\$ 2,910	\$ 2,382	\$ 1,919	\$ 1,606	\$ 1,324	\$ 1,096	\$ 995	\$ 911	\$ 825
Average daily toll messages (in thousands)	11	10	9	9	8	7	6	6	5	5

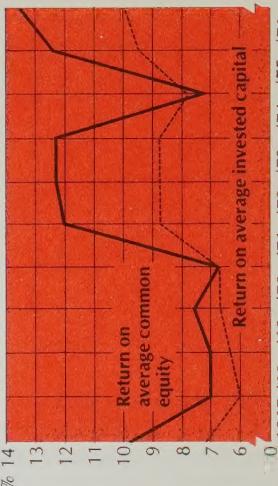
Telephone Plant per Telephone
(end of year)



Earnings and Dividends
per Average Common Share



Rates of Return on Average Common Equity & Average Invested Capital



THE ISLAND TELEPHONE COMPANY LIMITED

DIRECTORS

*A. Gordon Archibald

Chairman of the Board
Maritime Telegraph & Telephone Co., Ltd.

*Walter C. Auld

Executive Vice-President
The Island Telephone Company Limited
Charlottetown, P.E.I.

*Ivan E. H. Duvar

Chairman of the Board
& President
The Island Telephone Company Limited
Charlottetown, P.E.I.

Charles J. Fraser

President
Montague Drive-In Theatre Ltd.
Montague, P.E.I.

*Edward J. Hicks

Vice-President (Finance)
The Island Telephone Company Limited
Charlottetown, P.E.I.

John J. Howatt

President
Darlington Farms Ltd.
Darlington, P.E.I.

William Hebert C. Leavitt

President
The Leavitt's Maple Tree Craft
Alberton, P.E.I.

*Horace R. MacFarlane

Vice-President
The Prince Edward Island Bag
Company, Limited
Summerside, P.E.I.

*Percy J. Smith

Vice-President
Great Eastern Corporation Ltd.
Halifax, N.S.

OFFICERS

Ivan E. H. Duvar

Chairman of the Board
& President

Walter C. Auld

Executive Vice-President

Edward J. Hicks

Vice-President (Finance)

Donald R. Livingstone

General Manager

David S. Inkpen

Comptroller

Donald B. Quinn

Secretary-Treasurer

James L. Cameron

Assistant Secretary &
Staff Supervisor Operations

OPERATIONS

Mrs. K. M. Frizzell

Operator Services Manager

S. L. Godfrey

Plant Supervisor — Installation & Repair

A. E. Holland

Plant Supervisor
Trunks & Switching

Raymond Livingstone

Plant Supervisor — Construction
And Buildings, Vehicles and Supplies

D. W. McLane

Commercial Manager

P. A. Trainor

Engineering Supervisor —
Outside Plant

